Profit and loss account and other comprehensive income

for the year ended 31 March

	Note	2019 £000	2018 £000
Revenue	2	**66,832**	64,970
Operating costs	3	**(48,362)**	(45,085)
Other operating income	4	**1,630**	–
Operating profit		**20,100**	19,885
Gain on sale of non-household customer accounts		**–**	2,000
Finance costs	6	**(11,021)**	(12,077)
Finance income	7	**659**	718
Profit before income tax		**9,738**	10,526
Income tax expense	8	**(2,249)**	(1,061)
Profit for the financial year		**7,489**	9,465
Other comprehensive income: items that will not be reclassified to profit or loss			
Actuarial losses on pension scheme	10	**(3,960)**	(5,471)
Movement on deferred tax relating to net pension asset		**975**	–
Other comprehensive income, net of tax		**(2,985)**	(5,471)
Total comprehensive income for the year		**4,504**	3,994

Statement of changes in equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	3,105	84,526	87,631
Total comprehensive income for the year			
Profit for the financial year	–	9,465	9,465
Other comprehensive income	–	(5,471)	(5,471)
Total comprehensive income for the year	–	3,994	3,994
Transactions with owner recorded directly in equity			
Dividends	–	(5,600)	(5,600)
Total transactions with owner	–	(5,600)	(5,600)
Balance at 31 March 2018	3,105	82,920	86,025
Balance at 1 April 2018	3,105	82,920	86,025
Total comprehensive income for the year			
Profit for the financial year	–	7,489	7,489
Other comprehensive income	–	(2,985)	(2,985)
Total comprehensive income for the year	–	4,504	4,504
Transactions with owner recorded directly in equity			
Issue of share capital	48,385	–	48,385
Dividends	–	(3,684)	(3,684)
Total transactions with owner	48,385	(3,684)	44,701
Balance at 31 March 2019	**51,489**	**83,741**	**135,230**

Balance sheet

as at 31 March

	Note	2019 £000	2018 Restated* £000
Non-current assets			
Property, plant and equipment	11	**312,330**	296,691
Intangible assets	12	**4,482**	4,345
Net Pension Scheme Assets	10	**16,624**	21,112
		333,436	322,148
Current assets			
Inventory	13	**417**	745
Debtors	14	**25,518**	20,140
Cash and cash equivalents	21	**18,275**	16,642
		44,210	37,527
Creditors: amounts falling due within one year	15	**(32,211)**	(29,623)
Net current assets		**11,999**	7,904
Total assets less current liabilities		**345,435**	330,052
Non-current Liabilities			
Creditors: amounts falling due after more than one year	16	**(173,532)**	(207,309)
Unfunded pension obligation	10	**(1,095)**	(1,053)
Deferred tax liabilities	18	**(35,578)**	(35,665)
Net assets		**135,230**	86,025
Capital and reserves			
Called up share capital	19	**51,489**	3,105
Profit and loss account		**83,741**	82,920
Total shareholder's funds		**135,230**	86,025

* See note 1

These financial statements were approved by the Board of Directors on 15 July 2019 and signed on its behalf by:

Jeremy Pelczer
Chairman

Anthony Ferrar
Managing Director

Company registered number: 02447875

Cash flow statement

for the year ended 31 March

	2019 £000	2018 £000
Cash flows from operating activities		
Profit for the year	7,489	9,465
Adjustments for		
Depreciation of tangible fixed assets	9,161	9,313
Amortisation of intangible fixed assets	360	412
Interest receivable and similar income	(659)	(641)
Interest payable and similar charges	11,021	12,001
Profit on sale of assets on disposal of property, plant and equipment	(380)	(173)
Gain on sale of customer list	–	(2,000)
Taxation	2,249	1,061
	21,752	19,973
Increase/(decrease) in trade and other debtors	(2,978)	1,882
Decrease/(increase) in inventory	328	(34)
Increase/(decrease) in trade and other creditors	2,229	(586)
Increase in provisions and employee benefits	715	274
Decrease in amounts due to fellow subsidiary companies	(2,494)	(1,433)
	(2,200)	103
Interest paid	(5,273)	(5,995)
Tax paid	(588)	(1,004)
Net cash from operating activities	21,180	22,542
Cash flows from investing activities		
Proceeds from disposal of tangible fixed assets	408	489
Proceeds from disposal of customer list	–	2,000
Interest received	54	77
Acquisition of tangible fixed assets	(24,828)	(25,599)
Acquisition of intangible fixed assets	(497)	(429)
Net cash from investing activities	(24,863)	(23,462)
Cash flows from financing activities		
Proceeds from the issue of share capital	36,000	–
Net (repayment)/proceed from loan	(27,000)	8,350
Dividends paid	(3,684)	(5,600)
Net cash from financing activities	5,316	2,750
Net increase in cash and cash equivalents	1,633	1,830
Cash and cash equivalents at 1 April	16,642	14,812
Cash and cash equivalents at 31 March	18,275	16,642

1 Basis of accounting

Sutton and East Surrey Water plc (the 'Company') is a private Company incorporated and domiciled in Redhill in the UK and is limited by shares.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

In these financial statements, the Company has applied the exemptions under FRS 101 in respect of the following disclosures:

- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets
- Disclosures in respect of capital management
- Disclosures in respect of compensation of Key Management Personnel
- Exemption from presentation of third balance sheet for restatement
- Disclosure of related party transaction with wholly owned group entities
- Certain disclosures regarding revenue

The Company's ultimate parent undertaking, Sumisho Osaka Gas Water UK Ltd (SOGWUK), includes the Company in its consolidated financial statements. The consolidated financial statements of SOGWUK are prepared in accordance with IFRS and are available to the public from SOGWUK offices at Vintners' Place, 68 Upper Thames Street, London EC4V 3BJ. The Company is also consolidated into East Surrey Holdings Group, the consolidated financial statements are prepared in accordance with IFRS and are available to the public at 66-74 London Road, Redhill, RH1 1LJ.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Restatement

The balance sheet as at 31 March 2018 has been restated. There is no change to the net assets and retained earnings at 31 March 2018 as a result of the following presentational restatement:

In the prior year financial statements the pension asset and the defined benefit liability were shown as a net balance of £20,059,000 within current assets on the balance sheet. In these financial statements comparative information has been restated to present the pensions asset of £21,112,000 and the defined benefit liability of £1,053,000 gross within non-current assets and non-current liabilities, respectively. This restatement increases non-current assets by £21,112,000, reduces current assets by £20,059,000 and increases non-current liabilities by £1,053,000 with no change to net assets at 31 March 2018.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The going concern basis has been adopted for preparing the financial statements. The directors have considered the financial position of the Company and have concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts.

1 Basis of accounting (continued)

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

New Accounting Standards

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Company has adopted IFRS 15 in the year ended 31 March 2019 on a modified retrospective approach. The Company already recognises revenue over the period in which the service is delivered and there has been no material impact on adoption of this standard.

IFRS 9 'Financial Instruments' was adopted by the Company on 1 April 2018 on a modified retrospective approach. The adoption of IFRS 9 has not resulted in any significant changes to the Company's existing accounting practices, the Company has revised its policy for providing for doubtful debt where debt is less than six months old, and there has been no material impact on adoption of this standard.

Adopted IFRS not yet applied

IFRS 16 'leases' replaces IAS 17 'leases' and is effective for periods commencing on or after 1 January 2019. The Company will therefore adopt the standard on 1 April 2019. IFRS 16 details the recognition and measurement of lease arrangements in order to assess the amount, timing and certainty of cashflows as a result of leases. The Company has reviewed its current plant and equipment, whereby the majority of land, buildings, office equipment and vehicles are fully owned by the Company and therefore any impact of this IFRS is considered immaterial.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses for bad debts. A bad debt provision is established by applying expected recovery rates to debts outstanding at the end of the accounting period. Under IFRS 9 the expected credit loss model, takes into account the expected recovery rate determined by the age of the debt and the payment history.

Cash

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses. Amortised cost is calculated by taking into account any issue costs.

Trade and other creditors

Trade and other creditors are recognised at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Revenue recognition

The core principle of IFRS 15 'Revenue from Contracts with Customers' is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when the entity satisfies a performance obligation

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability. The element of charges that are raised that is considered uncollectable at the point the charge is raised is excluded from revenue.

The Company has applied this framework to its income streams as follows:

1. Water services
The Company has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Company's customer is the relevant retailer. In this case there is a contractual arrangement with the retailer through the competitive market arrangements run by MOSL.

The Company's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be one performance obligation and the performance of this obligation is matched to our customers receiving and consuming the benefits of our water services.

The transaction price is the amount of consideration that the Company expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services. The billing basis differs depending upon whether a household customer has a water meter (metered supply) or not (unmetered supply). In certain specific circumstances, usually when we are physically unable to fit a meter to the customer's property, a customer may be placed on an assessed charge. The process for revenue recognition for customers on an assessed tariff is the same as that for unmetered customers.

For unmetered (unmeasured) supply of water services the amount of consideration to which the Company has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Company's performance of its obligations throughout that year in the absence of definitive information regarding individual unmetered customer's usage.

For metered supply of water services the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water services charges unbilled at year end.

Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL.

2. Non water income (Developer services)
The Company provides a number of services to developers to assist them with connecting new properties and other property development to our water network. Details of developer services charges are available on the Company's website and described below:

a.) Requisitions

Requisitions relate to the Company laying new mains (and associated infrastructure) in order to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself.

b.) Service connections

Service connections are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote for the work to be undertaken (directly related to the estimated cost to the Company). Customers are required to pay in advance for a connection, thus creating a contract liability for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the quote price, with the Company's performance commitment being to connect the property the Company's network. The ultimate transaction price is the quote, adjusted for the actual cost to the Company to the work, with revenue being recognised once the job has been completed and the property has been connected to the Company's network.

c.) Diversions

Diversions are when we move our assets at the request of a developer or another party.These are contractual arrangements with the Company's performance commitment being to complete the diversion. Revenue is therefore recognised based on the agreed price when the diversion work has been completed.

1 Basis of accounting (continued)

Revenue recognition (continued)

d.) Infrastructure charges

Infrastructure charges are paid by developers when a new connection is made to our network. The charges are designed to cover the cost of network enhancement work in order to accommodate the additional demand from the new connection, such that this enhancement cost is not borne by existing customers. The charge is due when a new connection is made.

The requirement to pay an infrastructure charge for new connections is in the Water Industry Act and so the arrangement with a developer is considered a contract. The Company considers its performance obligation to be delivered by the connection to the network. Whilst the charge is to cover demand driven enhancements to the network, it does not relate to specific projects or the resultant assets. In addition, the contractual arrangement for the infrastructure charge is between the Company and the developer who is not necessarily the party that will ultimately benefit from the connection through ongoing water service (the occupier of the property).

The transaction price is the amount of consideration the Company expects to receive given that the infrastructure charge per connection is set each year as a fixed price (based on the historic amounts spent on related network enhancements over the previous five years).

It is considered that there is one performance obligation; therefore, there is no splitting of the transaction price into separate elements relating to different obligations. That obligation is considered to have been met when the new connection is made and so revenue is recognised at that point.

3. Non-appointed revenue

The Company has a number of income streams from its non-appointed business, including:

a.) Commission income from another regulated water and wastewater company (providing sewerage services to the majority of our customers) when we collect monies from our customers on their behalf. The Company acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the debt and transfer to the other company. The commission is paid based on the amount of debt actually collected, with the Company recognising the revenue when the performance obligation is satisfied.

b.) Income from the Company's garage, which provides servicing, repair and MOT facilities to third parties. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

Empty Properties

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing charges only. Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

Provision for doubtful debts

Provisioning for doubtful debt is made based on the debt's age and the recovery process already applied to the debt. For debts subject to formal recovery action through the courts historical recovery rates are used, whilst debt that has been subject to court action is provided for at 50% of the comparable age band used for court debt. All balances over four years old are fully provided for.

Bad debt write-off policy

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted or the cost of recovery is considered to be disproportionate to the value of the debt.

Tangible fixed assets

Tangible fixed assets have been revalued to fair value on 1 April 2014, the date of transition to FRS 101, and this is considered the deemed cost. Tangible fixed assets are stated at deemed cost less accumulated depreciation and accumulated impairment losses. The cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. The Company considers a substantial period of time for the construction of an asset in the water industry to be five years.

Fixed assets are capitalised and depreciated when they are considered to be operationally complete, which means that the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Infrastructure assets – mains and fresh water reservoirs
Infrastructure assets comprise a network of systems relating to water distribution.

Mains – repairs, maintenance and replacements
The mains network is considered to consist of multiple assets. It consists of different areas and is capable of being separated and divided up. IAS 16 requires all repairs and maintenance to be charged to the profit and loss account. Repairs and maintenance include the day-to-day servicing of an item. The costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The mending of a burst main is considered to be a repair as long as the subsequent work extends to the replacement of no more than one length of pipe. The relining of a main is considered to be maintenance which is the work needed to keep a main in good condition.

IAS 16 requires replacements to be capitalised. When more than one length of pipe is laid it is considered a replacement, and not a repair, and it is therefore capitalised.

Perished mains replaced during the period are disposed of from the fixed asset records.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful life of each part of an item of tangible fixed assets. Freehold land is not depreciated. The estimated useful lives are as follows:

	Years
Infrastructure assets	
Fresh water reservoirs	150
Mains	100
Non-infrastructure assets	
Buildings, boreholes and service reservoirs	40-100
Plant and machinery	10-25
Motor vehicles and sundry plant	3-15

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets

Goodwill
Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment.

Research and development
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can reliably measure the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred.

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

Impairment of financial and non-financial assets

Financial assets (including trade and other debtors)
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1 Basis of accounting (continued)

Impairment of financial and non-financial assets (continued)

Non-financial assets

The carrying amount of the Company's non-financial assets, which includes fixed assets and goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Employee benefits

The Company accounts for pensions and other post-employment benefits under IAS 19(R). The Group operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the period during which services are rendered by employees.

Defined benefit plans

The pension scheme asset or liability in the balance sheet represents the net present value of the defined benefit obligation and the fair value of scheme assets at the balance sheet date.

The present value of the defined benefit obligation and the cost of providing benefits under defined benefit plans is determined on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method, discounted at an interest rate equivalent at measurement date to the rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.

The pension cost in the income statement includes current and past service cost and the effect of any settlements and curtailments. A net finance charge or credit is recognised within finance costs in the income statement and comprises the net of the expected return on pension scheme assets and the interest on pension scheme liabilities.

All actuarial gains and losses and the related current and deferred taxation are recognised in other comprehensive income.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

Significant accounting judgements

The key estimates and areas of judgement required in the preparation of these accounts are detailed in the Audit Committee Report on page 61.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of goodwill is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Dividends

Dividends are only recognised as a liability at the date of the balance sheet to the extent that they are declared prior to year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Revenues

	2019 £000	2018 £000
Unmeasured water income	**25,098**	25,728
Measured water income	**27,225**	24,723
Wholesale income from retailers (non-household)	**9,682**	9,217
Other water income	**761**	1,085
Non-water income	**1,884**	1,536
Non-appointed income	**2,182**	2,681
	66,832	64,970

All of the Company's activity are derived from one class of business and one geographical location.

Wholesale income includes income from retailers operating in the competitive retail market for non-household customers. The revenue is primarily from supply of wholesale water to SES Business Water, following the sale of the Company's right to trade with non-household customers in April 2017.

3 Net operating costs

	2019 £000	2018 £000
Wages and salaries	**10,576**	9,592
Social security costs	**1,109**	1,038
Other pension costs	**2,430**	1,727
Raw materials and consumables	**2,187**	2,050
Depreciation/amortisation of owned assets	**9,521**	9,725
Fees payable to Company's auditor for the audit of annual accounts	**75**	62
Fees payable to Company's auditor and associates for other services		
– Audit of regulatory accounts	**45**	22
– Other assurance services	**6**	5
Other operating charges	**22,413**	20,864
	48,362	45,085

Wages and salaries disclosed above are shown net of capitalised costs. During the year £1,964,636 (2018: £1,647,689) of employment costs were capitalised within fixed asset costs.

	2019 £000	2018 £000
Net operating costs can be analysed as:		
Cost of sales	**31,724**	31,978
Administration expenses	**16,638**	13,107
	48,362	45,085

4 Other operating income

	2019 £000	2018 £000
Proceeds from insurance claim	**1,250**	–
Profit on sale of fixed assets other than land	**380**	–
	1,630	–

5 Employees

	2019 Number	2018 Number
The average number of persons employed (including directors) during the year was as follows:		
Water supply	**297**	290
Other	**1**	1
	298	291

97 of the 298 employees were female (2018: 92 of 291). Directors' remuneration is disclosed on page 59 in the Remuneration Committee report, including the highest paid director.

6 Finance cost

	2019 £000	2018 £000
Index linked bond	**4,713**	4,556
Indexation of bond	**5,160**	5,570
Bond fees amortisation	**446**	442
Other	**303**	543
Preference share dividend	**399**	966
Total other interest payable and similar expenses	**11,021**	12,077

7 Finance income

	2019 £000	2018 £000
Expected return on pension scheme assets	**3,073**	3,182
Interest on post retirement liabilities	**(2,559)**	(2,541)
Other interest receivable	**145**	77
Total interest receivable and similar income	**659**	718

8 Tax expense

Recognised in the profit and loss account	2019 £000	2018 £000
UK corporation tax		
Current tax on income for the year	**770**	780
Adjustments in respect of prior years	**590**	155
Total current tax	**1,360**	935
Deferred tax		
Origination and reversal of timing differences	**1,097**	594
Movement in timing difference due to change in the tax rate and laws	**–**	98
Pensions scheme	**(97)**	(566)
Changes in tax rate and laws		
– Adjustments in respect of previous years	**(111)**	–
Total deferred tax charge	**889**	126
Tax on profit	**2,249**	1,061

The UK corporation tax rate for the year ended 31 March 2019 was 19% (2018: 19%). A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. These reductions will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2019 has been calculated using the rate expected to be applicable when the deferred tax liability is forecast to crystallise.

The 2019 Adjustments in respect of prior years relates mainly to the £500,000 (2018:Nil) provision included for tax charges that may be incurred under the Corporate Interest Restriction.

Reconciliation of effective tax rate

The current tax charge for the year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018:19%). The differences are explained below:

	2019 £000	2018 £000
Profit for the year	7,489	9,465
Total tax expense	2,249	1,061
Profit before tax	9,738	10,526
Tax using the UK corporation tax rate of 19% (2018: 19%)	1,850	2,000
Effects of:		
Non-deductible expenses	57	–
Profit on disposal of fixed assets	(310)	(34)
Preference dividends paid	76	184
Disposal of non-household customer list	–	(380)
Pension adjustment	72	(167)
Other	40	9
Capital allowances for the year exceeding depreciation	(811)	(832)
Capitalised expenditure allowable on accounts basis	(204)	–
Adjustments to tax charge in respect of previous years	590	155
Change in tax on deferred tax balances	889	126
Total tax expenses included in profit or loss	2,249	1,061

9 Dividends

	2019 £000	2018 £000
Ordinary dividend paid 3 April 2017 (6.4 pence per share)	–	2,000
Ordinary dividend paid 28 June 2018 (5.8 pence per share) (27 June 2017 (5.8 pence per share))	1,800	1,800
Ordinary dividend paid 21 December 2018 (0.4 pence per share) (2017/18: 20 December 2018 (5.8 pence per share))	1,884	1,800
Ordinary shares – equity dividends paid (6.2 pence per share) (2018 (18.0 pence per share))	3,684	5,600

The ordinary dividend paid on 3 April 2017 was declared prior to the end of the year ended 31 March 2017.

10 Employee benefits

Water Companies Pension Scheme

The Company participates in both a defined contribution scheme Group Personal Pension Plan (GPPP) available for all employees and a defined benefit pension scheme, the Water Companies Pension Scheme (WCPS), for qualifying employees. This is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme (the Section). The Section's funds are administered by trustees and are independent of the Company's finances.

Active members' benefits accrued on a final salary basis until 1 April 2013, when it switched to a career average basis.

The scheme closed to the future accrual of benefits with effect from 31 March 2019, with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 16 years.

The closure of the scheme to future accrual of benefits is a curtailment event under IAS 19(R). However, as both accrued benefit for active members and deferred pensions increase each year by inflation, not salary growth, the closure has had no effect on the value placed on the liabilities of the scheme and so there is no resultant curtailment gain or loss.

The funding target for the scheme is to hold assets equal in value to the accrued benefits. If there is a shortfall against this target, then the Company and the Trustees will agree on deficit contributions to meet this deficit over a period. Although the scheme is currently in surplus, there is a risk to the Company that adverse experience in the future could lead to a requirement for the Company to make additional contributions to recover any deficit that arises.

Contributions are set based upon funding valuations carried out every three years by an independent actuarial advisor; the next valuation is due to be carried out as at 31 March 2020. During the year ended 31 March 2019 the Company paid employer contributions of £673,000 into the Section (year ended 31 March 2018: £845,000). As the scheme is in surplus and now closed to the accrual of future benefits the estimated amount of total employer contributions expected to be paid into the Section for the year ended 31 March 2019 is £nil.

10 Employee benefits (continued)

Water Companies Pension Scheme (continued)

The latest formal actuarial valuation of WCPS was undertaken as at 31 March 2017. The results of this valuation were updated to the accounting date by an independent qualified actuary in accordance with IAS 19(R).

Following the judgment in the Lloyds Banking Group court case on 26 October 2018, the Trustees will need to equalise Guaranteed Minimum Pensions (GMPs) in the Section. As a result, the independent actuarial advisor has increased the defined benefit obligation at 31 March 2019 by £600,000 to allow for this. The £600,000 charge has been recognised as a past service cost in the profit and loss account.

The key IAS 19(R) assumptions used for the Company's section of WCPS are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of IAS 19(R) liabilities and the surplus of assets above IAS 19(R) liabilities (which equal the gross pension asset).

Assumptions

	2019	2018
Retail prices index inflation	3.5%	3.4%
Consumer prices index (CPI) inflation	2.8%	2.7%
Discount rate	2.3%	2.5%
Pension increases (CPI)	2.8%	2.7%
Pension increases (CPI capped at 5%)	2.8%	2.7%
Salary growth	n/a	2.9%

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.8 years (2018: 28.3 years).

Following the closure of the scheme to future accrual of benefits, salary growth is no longer relavant to the Section's financial position.

Plan assets

	31 March 2019 Fair value £000	31 March 2018 Fair value £000
Equities	–	9,155
Diversified growth funds	–	17,794
Liability driven investments	89,719	85,501
Emerging market multi-asset funds	–	6,555
Absolute Return Bonds	34,891	–
High yield bonds	–	5,816
Cash	–	368
Total	124,610	125,189

The investment strategy is set by the Trustees of the Section. The current strategy is to invest in a combination of lower risk assets e.g liability driven investments, which respond to factors such as changes in interest rate. The majority of the Section's assets are held within instruments with quoted market prices in an active market.

The Section does not invest in property occupied by the Company or in financial securities issued by the Company.

Changes in the present value of the defined benefit obligations are as follows:

	2019			2018		
	WCPS £000	**Unfunded £000**	**Total £000**	WCPS £000	Unfunded £000	Total £000
Defined benefit obligation at 1 April	**104,077**	**1,053**	**105,130**	103,406	1,039	104,445
Employer's portion of current service cost	**881**	**–**	**881**	974	–	974
Past service cost	**600**	**–**	**600**	–	–	–
Interest cost	**2,533**	**26**	**2,559**	2,516	25	2,541
Contributions from section members	**10**	**–**	**10**	19	–	19
Actuarial loss	**5,123**	**58**	**5,181**	2,690	32	2,722
Benefits paid	**(5,238)**	**(42)**	**(5,280)**	(5,528)	(43)	(5,571)
Defined benefit obligation at 31 March	**107,986**	**1,095**	**109,081**	104,077	1,053	105,130

The Company has also made provision (31 March 2019: £1,095,000 (31 March 2018: £1,053,000)) for an unfunded portion of a former director's pension entitlement. This defined benefit obligation is revalued annually in accordance with IAS 19(R) using the same assumptions as WCPS and is included in the Company's defined benefit obligation (above).

Changes in the fair value of the Section assets are as follows:

	2019 £000	2018 £000
Fair value of section assets at 1 April	**125,189**	129,608
Interest on Section assets	**3,073**	3,182
Actual return less interest on plan assets	**1,221**	(2,749)
Contributions by the Company	**673**	845
Contributions by Section members	**10**	19
Benefits paid	**(5,238)**	(5,528)
Section expenses	**(318)**	(188)
Fair value of section assets at 31 March	**124,610**	125,189

The Company has considered the Section's deeds and rules, and as a result believes that it would be entitled to a full refund of the surplus assets following the final payment to the last beneficiary of the scheme. As such there is no restriction on value of the surplus that can be recognised in the Company's balance sheet.

	2019 £000	2018 £000
Fair value of Section assets	**124,610**	125,189
Present value of defined benefit obligations	**(107,986)**	(104,077)
Pension asset for SES Water Section of WCPS (non-current asset)	**16,624**	21,112
Unfunded former director's pension entitlement (non-current liabilities)	**(1,095)**	(1,053)
Net pension position	**15,529**	20,059
Deferred tax liability on net pension position (Note 18)	**(2,640)**	(3,410)

10 Employee benefits (continued)

Water Companies Pension Scheme (continued)

The net surplus recognised in the balance sheet has moved over the year as follows:

	2019			2018		
	WCPS £000	Unfunded £000	Total £000	WCPS £000	Unfunded £000	Total £000
Net WCPS pension asset recognised in the balance sheet at 1 April	21,112	(1,053)	20,059	26,202	(1,039)	25,163
Amount recognised in profit and loss account	(1,259)	(26)	(1,285)	(496)	(25)	(521)
Amount recognised in other comprehensive income	(3,902)	(58)	(3,960)	(5,439)	(32)	(5,471)
Benefits paid by Company	–	42	42	–	–	–
Contributions paid	673	–	673	845	–	845
Net WCPS pension asset recognised in the balance sheet at 31 March	16,624	(1,095)	15,529	21,112	(1,096)	20,016

The amounts recognised in the income statement are as follows:

	2019			2018		
	WCPS £000	Unfunded £000	Total £000	WCPS £000	Unfunded £000	Total £000
Employer's part of current service charge	(881)	–	(881)	(974)	–	(974)
Past service cost	(600)	–	(600)	–	–	–
Section expenses	(318)	–	(318)	(188)	–	(188)
Net interest credit	540	(26)	514	666	(25)	641
Net expense recognised in profit and loss account for pensions schemes	(1,259)	(26)	(1,285)	(496)	(25)	(521)

In addition to the amounts above, the Company paid contributions to defined contribution schemes amounting to £1,152,000 (year ended 31 March 2018: £956,412) recognised as an expense in the profit and loss account.

The amounts recognised immediately in other comprehensive income are as follows:

	2019			2018		
	WCPS £000	Unfunded £000	Total £000	WCPS £000	Unfunded £000	Total £000
Net actuarial (losses) in the year due to:						
Changes in financial assumptions	(4,559)	(43)	(4,602)	(2,889)	(27)	(2,916)
Changes in demographic assumptions	(985)	(13)	(998)	–	2	2
Experience adjustments on benefit obligations	421	(2)	419	199	(7)	192
Actual gain/(loss) on Section assets relative to interest on Section assets	1,221	–	1,221	(2,749)	–	(2,749)
Net actuarial losses recognised in other comprehensive income	(3,902)	(58)	(3,960)	(5,439)	(32)	(5,471)

The following table illustrates the sensitivity of the defined benefit obligation to some of the significant assumptions as at 31 March 2019:

		Effect on obligation (£000)	
Movement		-0.1%	+0.1%
Price inflation	£000	(1,400)	1,400
Discount rate	£000	1,700	(1,700)
Year		-1	+1
Life expectancy	£000	(4,500)	4,500

These sensitivities have been calculated by the independent actuarial advisor to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market condition at the accounting date. This is considered unlikely in practice – for example, a change in the discount rate is unlikely to occur without any movement in the value of the assets held by the scheme.

11 Property, plant and equipment

	Land £000	Collection reservoir £000	Buildings boreholes & service reservoirs £000	Plant & machinery £000	Mains £000	Motor vehicles & sundry plant £000	Assets in the course of construction £000	Total £000
Cost								
1 April 2018	5,088	2,533	118,100	106,222	219,929	9,048	30,394	491,314
Additions	–	–	517	521	2,648	391	20,751	24,828
Disposals	–	–	(2)	–	–	(150)	–	(152)
31 March 2019	**5,088**	**2,533**	**118,615**	**106,743**	**222,577**	**9,289**	**51,145**	**515,990**
Depreciation								
1 April 2018	–	(381)	(32,320)	(64,449)	(90,974)	(6,499)	–	(194,623)
Charge for year	–	(21)	(2,243)	(4,521)	(1,520)	(856)	–	(9,161)
Disposals	–	–	2	–	–	122	–	124
31 March 2019	**–**	**(402)**	**(34,561)**	**(68,970)**	**(92,494)**	**(7,233)**	**–**	**(203,660)**
Net book value								
31 March 2019	**5,088**	**2,131**	**84,054**	**37,773**	**130,083**	**2,056**	**51,145**	**312,330**
31 March 2018	5,088	2,152	85,780	41,773	128,955	2,549	30,394	296,691

Land comprises freehold land at £5,088,000 (2018: £5,047,897) and long leasehold land at £40,648 (2018: £40,648).

12 Intangible fixed assets

	Software £000	Goodwill £000	Work in progress £000	Total £000
Cost				
1 April 2018	5,512	19,454	356	25,322
Additions	–	–	497	497
Transfer	85	–	(85)	–
Disposals	–	–	–	–
31 March 2019	**5,597**	**19,454**	**768**	**25,819**
Amortisation				
1 April 2018	(4,610)	(16,367)	–	(20,977)
Charge for the year	(360)	–	–	(360)
Disposals	–	–	–	–
31 March 2019	**(4,970)**	**(16,367)**	**–**	**(21,337)**
Net book value				
31 March 2019	**627**	**3,087**	**768**	**4,482**
31 March 2018	902	3,087	356	4,345

13 Inventory

	2019 £000	2018 £000
Raw materials and consumables	**417**	745

14 Debtors

	2019 £000	2018 £000
Trade debtors	**17,248**	13,885
Amounts owed by fellow subsidiary undertakings	**5,318**	2,918
Other debtors	**2,285**	1,577
Prepayments and accrued income	**667**	1,760
	25,518	20,140

15 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**1,984**	4,529
Amounts owed to fellow subsidiary undertakings	**1,706**	1,800
Other creditors	**9,530**	16,383
Group relief payable	**1,136**	454
Other taxes and social security payable	**488**	460
Accruals and deferred income	**8,944**	5,094
Contract liabilities	**7,410**	–
Deposits from developers	**1,013**	903
	32,211	29,623

16 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
2.874% Secured index-linked bond 2027-2031	**159,930**	154,323
3.25% Irredeemable debentures	**50**	50
5% Irredeemable debentures	**52**	52
7.8% Cumulative irredeemable preference shares of £1	**–**	12,384
Long-term bank loans	**13,500**	40,500
	173,532	207,309

7.8% Cumulative irredeemable preference shares of £1 were converted on 29 August 2018 when ordinary shares were issued to the holder of the preference shares (see Note 19).

A £30 million long-term bank loan was fully repaid on 19 October 2018 (see Note 17).

17 Financial instruments and interest bearing loans and borrowings

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of its business. The Company does not have any exposure to currency risk, since all activities are conducted in the UK and all borrowings are denominated in pound sterling.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations. At the balance sheet date there were no significant concentrations of credit risk.

Interest risk

The Company adopts a policy of reducing its exposure to interest rate changes by having the majority of its borrowings on a fixed rate basis.

The long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company. The bond was issued on 21 March 2001 and is secured upon the shares of Sutton and East Surrey Water plc. In the event of default the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method. Unamortised issue costs of £5,290,537 (2018: £5,736,566) are netted against the carrying value of the bond, and included within the effective interest charge.

The bond, debentures and preference shares are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate, and longer-term borrowings will be at a margin above LIBOR.

The effective interest rates of borrowings are disclosed in Note 15 above and in Table 1E of the Regulatory accounts on page 110.

1. Loans and other borrowings

Maturities	Note	2019 £000	2018 £000
Loans and other borrowings			
– Between one and two years		**13,500**	–
– Between two and five years		**–**	40,500
– More than five years		**160,032**	166,809
		173,532	207,309
Reported as			
– Creditors: amounts falling due after more than one year	16	**173,532**	207,309
– Creditors: amounts falling due within one year	15	**–**	–
		173,532	207,309

2. Undrawn committed borrowing facilities
Undrawn borrowing facilities available to the Company are set out below. The facilities available at the balance sheet date are unsecured.

	2019 £000	2018 £000
Expiring		
– in one year or less	**1,000**	1,000
– Between one and two years	**11,500**	–
– Between two and five years	**–**	14,500
	12,500	15,500

3. Fair values
The fair values together with the carrying amounts are shown in the balance sheet as follows:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
2.874% Secured index-linked bond 2027-2031	**159,930**	**233,419**	154,323	217,535

Fair value is determined using a quoted market bid price.

There is no material difference between fair values and carrying amounts within the balance sheet for all other financial assets and liabilities.

18 Deferred tax liability

	2019 £000	2018 £000
At 1 April 2018	**35,665**	35,539
Credited to reserves	**(975)**	–
Charged to profit and loss for the year	**888**	126
At 31 March 2019	**35,578**	35,665

The elements of deferred tax are as follows:

	2019 £000	2018 £000
Difference between accumulated depreciation, amortisation and capital allowances	**32,959**	31,952
Other timing differences	**(21)**	303
Deferred tax liability on net pension asset (see Note 10)	**2,640**	3,410
Total deferred tax liability	**35,578**	35,665

The expected future rates of UK corporation tax which are reflected in the Company's deferred tax position are set out in Note 8.

19 Share capital

Ordinary shares of 10p each	2019 number	2018 number	2019 £000	2018 £000
Allotted, called up and fully paid				
At 1 April 2018	**31,046,440**	31,046,440	**3,105**	3,105
Issued during the year:				
29 August 2018	**123,845,930**	–	**12,384**	–
19 October 2018	**360,000,000**	–	**36,000**	–
At 31 March 2019	**514,892,370**	31,046,440	**51,489**	3,105

7.8% Cumulative irredeemable preference shares of £1 each
(Shown as a liability (see Note 17))

	2019 number	2018 number	2019 £000	2018 £000
Allotted, called up and fully paid				
At 1 April 2018	**12,384,593**	12,384,593	**12,384**	12,384
Issued during the year				
29 August 2018 – conversion of preference shares to ordinary shares	**(12,384,593)**	–	**(12,384)**	–
At 31 March 2019	**–**	12,384,593	**–**	12,384

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

The holders of irredeemable preference shares were entitled to receive cumulative dividends but were not entitled to vote at meetings of the Company.

On 29 August 2018 the Company issued 123,845,930 ordinary shares at par to the holder of the preference shares on cancellation of the preference shares.

On 19 October 2018 the Company issued 360,000,000 ordinary shares at par (£36 million proceeds were received) to the existing shareholder. The proceeds were used to repay debt and fund the Company's capital programme.

20 Cash flow from management of liquid resources

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Movement in short-term deposits	(1,078)	1,747
Interest received on deposits	54	28
Movement in year	(1,024)	1,775
Liquid resources at 1 April 2018	14,845	13,070
Liquid resources at 31 March 2019	13,821	14,845

21 Cash and cash equivalents

	31 March 2019 £000	31 March 2018 £000
Liquid resources – deposits exceeding 24 hours duration	13,821	14,845
Cash	4,454	1,797
Cash and cash equivalents	18,275	16,642

Within liquid resources there is £5,334,565 (2018: £5,196,086) of restricted cash relating to the secured index-linked bond.

22 Commitments

	2019 £000	2018 £000
Contracted capital commitments authorised by the directors	13,300	16,976

23 Related parties

The only material disclosable trading transactions between the Company and related parties, other than those disclosed in Note 1 of the Regulatory accounts on page 134, was a contribution of £48,514 (2018: £60,427) to Water UK and pension management fees of £20,000 (2018: £20,000) to the Water Companies (Pension Fund) trustee.

24 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company's parent company is SESW Holding Company Limited, whose registered office is 66-74 London Road, Redhill, Surrey RH1 1LJ. The ultimate parent company and the smallest and largest group in which the results of the Company are consolidated is Sumisho Osaka Gas Water UK Limited whose consolidated accounts are available at Vintners Place, 68 Upper Thames Street, London EC4V 3BJ.

The Company is also consolidated within East Surrey Holdings Group; the consolidated financial statements are prepared in accordance with IFRS and are available to the public at 66-74 London Road, Redhill, Surrey, RH1 1LJ.